2017 REGULAR SESSION
ACTUARIAL NOTE HB 22

House Bill 22 HLS 17RS-309 **Engrossed** **Author: Representative Mark Abraham** **Date: May 1, 2017** **LLA Note HB 22.02** **Organizations Affected:** **Firefighters' Retirement System** **EG DECREASE APV**	**This Note has been prepared by the Actuarial Services Department of the Legislative Auditor with assistance from either the Fiscal Notes staff of the Legislative Auditor or staff of the Legislative Fiscal Office. The attachment of this Note provides compliance with the requirements of R.S. 24:521 as amended by Act 353 of the 2016 Regular Session.** **Paul T. Richmond, ASA, MAAA, EA** **Manager Actuarial Services**

Bill Header: RETIREMENT/FIREFIGHTERS: Provides relative to retirement options in the Firefighters' Retirement System.

Cost Summary:

The estimated actuarial and fiscal impact of HB 22 on the retirement systems and their plan sponsors is summarized below. Actuarial costs pertain to estimated changes in the ***actuarial present value of future benefit payments***. Fiscal costs or savings pertain to changes to all cash flows over the next five year period including retirement system cash flows, OPEB cash flows, or cash flows related to other government entities.

An increase in actuarial costs is denoted throughout the actuarial note by "Increase" or a positive number. Actuarial savings are denoted by "Decrease" or a negative number. An increase in expenditures or revenues (fiscal impact) is denoted by "Increase" or a positive number. A decrease in expenditures or revenues is denoted by "decrease" or a negative number.

Estimated Actuarial Impact:

The top part of the following chart shows the estimated change in the ***actuarial present value of future benefit payments and expenses***, if any, attributable to the proposed legislation. The bottom part shows the effect on cash flows.

Actuarial Costs Pertaining to:		**Actuarial Cost**
The Retirement Systems		Decrease
Other Post-Employment Benefits (OPEB		Increase
Other Government Entities		0
Total		Decrease
	Fiscal Costs	
Five Year Fiscal Cost Pertaining to:	**Expenses**	**Revenues**
The Retirement Systems	Decrease	Decrease
Other Post-Employment Benefits	Increase	0
Other Government Entities	0	0
Total	Decrease	Decrease

Bill Information

Current Law

Occasionally a firefighter who is a member of the Firefighters' Retirement System (FRS) becomes disabled due to a service connected injury or medical condition after he retires or enters DROP. If the service connected disability occurred between July 1, 2001 and June 30, 2016, the firefighter could apply to have his pension converted from a regular retirement benefit to a disability pension benefit in order to receive favorable treatment on his federal income tax return.

The following rules apply to such conversions:

1. The firefighter must be able to demonstrate by clear and convincing evidence that the conditions causing the disability occurred during his active service, before retirement or entering DROP.

2. The disability pension benefit for any member age 50 or more at the time of the disability must be at least equal to the regular pension benefit otherwise payable under R.S. 11:2256.

3. In addition, the converted disability benefit must not exceed the regular pension benefit because the actuarial present value cost of the benefit after conversion cannot exceed the actuarial present value cost of the benefit before conversion. Therefore, the benefit amount will not change as a result of the conversion.

4. The optional form of benefit and designation of beneficiary may not be changed.

5. The State Medical Disability Board must officially certify that the member has a qualifying disability.

6. The disability must not have been a direct or indirect result of a condition that existed prior to employment under FRS.

7. The disability pension of any retiree ceases whenever he recovers from his disability as determined by the Medical Review Board.

Current law also provides for the following:

1. No more conversions are allowed because conversion rights sunset on July 1, 2016.

2. PRSAC must publish reports about the impact of all such conversions and to include the results in the actuarial valuations for FRS. The reports show that conversions do not add to the actuarial cost of FRS.

3. The Medical Board may decertify the disability of a converted disabled retiree. If this occurs, the disability benefit is no longer paid. The retiree may resume his regular pension if otherwise eligible.

4. The disability pension plus income the retiree earns from other employment may not exceed his final average compensation. If it does, the retiree's disability benefit is reduced so that his income does not exceed his final average compensation. This rule only applies to a disability retiree. It does not apply to a regular retiree.

Current law prohibits any conversions on or after July 1, 2016. If the sunset date is lifted, then a regular retiree has the following choices:

1. The regular retiree may remain a regular retiree. He will not receive the favorable federal tax advantage. However, he will not be subject to decertification or a limitation on employment income.

2. The regular retiree may apply for conversion. If he has a qualifying disability, then he receives the favorable federal tax treatment; he is subject to decertification upon recovery from his disability; and his employment income is restricted.

Proposed Law

The July 1, 2016 sunset date on conversions will be repealed under HB 22. Retirees who qualify may apply to have their benefit converted from a regular pension to a disability pension.

HB 22 also eliminates the need for the Public Retirement Systems' Actuarial Committee to publish reports about the impact of such conversions.

Implications of the Proposed Changes

A qualifying disabled firefighter will be able to convert his monthly regular pension benefit to a disability benefit.

I. ACTUARIAL ANALYSIS SECTION

A. Analysis of Actuarial Costs
(Prepared by LLA)

This section of the actuarial note pertains to *actuarial present value costs or savings* associated with the retirement systems, with OPEB, and with other government entities.

1. Retirement Systems

The enactment of HB 22 may result in actuarial savings that are small to negligible. There is potential for a retiree's monthly pension to be reduced. There is no potential for his pension to increase.

Actuarial savings will occur under the following circumstances:

> A regular retiree elects to convert his regular pension benefit to a disability benefit and later recovers from his disability. He may have his pension eliminated completely or he may have his monthly pension reduced if his total income from his disability pension and his income from another employer exceeds his final average compensation.

2. Other Post-Employment Benefits (OPEB)

HB 22 may produce an actuarial cost associated with OPEB. The amount of cost cannot be determined. Our analysis is summarized below.

> Underwriting criteria for post-retirement medical insurance does not rely on the type of pension a member is receiving. However, if by chance, a specific insurer of firefighters does include disablement risk in its premium calculations, the risk for a disabled retiree will be higher than for a regular retire and an increase in annual premiums and the actuarial cost may occur. The actuarial cost to employers of firefighters will be small to negligible. The actuarial effect of HB 22 on OPEB costs is expected to be less than the actuarial effect on retirement savings.

3. Other Government Entities

The actuarial cost of HB 22 associated with government entities other than those identified in HB 22, is estimated to be $0. See Section II; Subsection C below.

B. Actuarial Data, Methods and Assumptions
(Prepared by LLA)

Unless indicated otherwise, the actuarial note for HB 22 was prepared using actuarial data, methods, and assumptions as disclosed in the most recent actuarial valuation report adopted by PRSAC. The data, methods and assumptions are being used to provide consistency with the actuary for the retirement system who may also be providing testimony to the Senate and House retirement committees.

C. Actuarial Caveat
(Prepared by LLA)

There is nothing in HB 22 that will compromise the signing actuary's ability to present an unbiased statement of actuarial opinion.

II. FISCAL ANALYSIS SECTION

This section of the actuarial note pertains to fiscal costs or savings associated with the retirement systems (Table A), with OPEB (Table B), and with other fiscal costs or savings attributable to government entities not associated with either the retirement systems or OPEB (Table C). Fiscal costs or savings reflect all forms of cash flow including benefit costs or savings, administrative costs or savings, or any other identifiable type of fiscal cost or savings. The total effect of HB 22 on fiscal costs, fiscal savings, or cash flows is presented in Table D.

A. Estimated Fiscal Impact – Retirement Systems
(Prepared by LLA)

A. Narrative

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Table A shows the estimated fiscal impact of the proposed legislation on the retirement systems and the government entities that sponsor them. The impact on fiscal information in Table A includes administrative costs or savings associated with the retirement system and the sponsoring government entities.

The amounts shown as "Decrease" in Table A are small to negligible.

Fiscal Cost for the Retirement Systems and Their Sponsors: Table A

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

The effects on retirement related fiscal costs and revenues during the five year measurement period are shown in Table A and in Items 2 and 3 below.

2. Expenditures

a. FRS expenditures (Agy Self-Generated) will decrease beginning in 2017-18 because a retired firefighter may elect to have his regular pension treated as a disability pension. Such member may receive a disability pension that is less than his regular pension. However, it may be beneficial to the retiree in other ways.

b. The expenditures of employers who employ firefighters (Local Funds) will decrease to the extent that the employer contribution rate is reduced due to the savings in benefit expenditures from FRS.

3. Revenues

a. FRS revenues (Agy Self-Generated) will decrease to the extent that the employer contribution rate is reduced to accommodate the small amount of expenditures from FRS.

B. Estimated Fiscal Impact – OPEB
(Prepared by LLA)

1. Narrative

Table B shows the estimated fiscal impact of HB 22 on costs or savings associated with OPEB and the government entities that sponsor these benefit programs. Fiscal costs or savings in Table B include administrative costs or savings associated with the government entity sponsoring the OPEB program. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

HB 22 will have the following effects on OPEB related fiscal costs and revenues during the five year measurement period. The amounts shown as "Increase" in Table B are small to negligible. The effect of HB 22 on OPEB costs is expected to be less than the effect on retirement savings. Therefore there should be net savings when combining Table A and Table B.

OPEB Fiscal Cost: Table B

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Increase	Increase	Increase	Increase	Increase
Annual Total	$ 0	Increase	Increase	Increase	Increase	Increase

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

2. Expenditures

a. Expenditures by employers of firefighters (Local Funds) will increase to the extent that carriers of medical insurance assign a higher risk to a retired firefighter classified as "disabled" than it does to a firefighter not classified as "disabled".

3. Revenues

a. Not Applicable.

C. Estimated Fiscal Impact: Other Government Entities (unrelated to the retirement systems or OPEB)
(Prepared by Mike Battle, Audit Manager for the LLA)

1. Narrative

From time to time, legislation is proposed that has an indirect effect on cash flows associated with other government entities, unrelated to the retirement systems or OPEB. Table C shows the estimated fiscal impact of HB 22 on such government entities. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number.

Fiscal Cost for Other Government Entities: Table C

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

The effects on fiscal costs related to other government entities during the five year measurement period are shown in Table C and in Items 2 and 3 below.

B. Expenditures:

There is no anticipated indirect material effect on the expenditures of local governmental entities (e.g., fire districts) as a result of this measure. The bill removes the July 1, 2016 sunset date on the authority of a retired member or a Deferred Retirement Option Plan participant of the Firefighters' Retirement System to convert from a service retirement to a service connected disability retirement; and removes certain reporting requirements. Based on information from the Firefighters' Retirement System, Louisiana State Firemen's Association, Louisiana Municipal Association, and St. George Fire Department, it appears that this bill will not impact the expenditures of other governmental entities.

C. Revenues:

There is no anticipated indirect material effect on the revenues of local governmental entities (e.g., fire districts) as a result of this measure. The bill removes the July 1, 2016 sunset date on the authority of a retired member or a Deferred Retirement Option Plan participant of the Firefighters' Retirement System to convert from a service retirement to a service connected disability retirement and removes certain reporting requirements. Based on information from the Firefighters' Retirement System, Louisiana State Firemen's Association, Louisiana Municipal Association, and St. George Fire Department, it appears that this bill will not impact the revenues of other governmental entities.

D. Fiscal Impact − All Retirement Systems, OPEB, and All Government Entities
(Prepared by LLA)

1. Narrative

Table D shows the estimated fiscal impact of HB 22 on all government entities within the state of Louisiana. Cell values in Table D are the sum of the respective values in Table A, Table B, and Table C. A fiscal cost is denoted by "Increase" or a positive number. Fiscal savings are denoted by "Decrease" or a negative number. A revenue increase is denoted by "Increase" or a positive number. A revenue decrease is denoted by "Decrease" or a negative number.

Total Fiscal Cost: Table D (Cumulative Costs from Tables A, B, & C)

EXPENDITURES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	Decrease	Decrease	Decrease	Decrease	Decrease
Annual Total	Decrease	Decrease	Decrease	Decrease	Decrease	Decrease

REVENUES	2017-18	2018-19	2019-2020	2020-2021	2021-2022	5 Year Total
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	Decrease	Decrease	Decrease	Decrease	Decrease
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	Decrease	Decrease	Decrease	Decrease	Decrease

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Credentials of the Signatory Staff:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein.

Mike Battle, Audit Manager for the Louisiana Legislative Auditor has supervised the preparation of the fiscal analyses contained in Section II; Subsection C.

Information Pertaining to Article (10)(29(F) of the Louisiana Constitution

☐ HB 22 contains a retirement system benefit provision having an actuarial cost.

No individual member of FRS will receive a larger benefit under HB 22 than what he would have received without HB 22.

Dual Referral Relative to Total Fiscal Costs or Total Cash Flows:

The information presented below is based on information contained in Table D for the first three years following the 2017 regular session.

Senate

☐ 13.5.1 Applies to Senate or House Instruments.

If an annual fiscal cost ≥ $100,000, then bill is dual referred to:
Dual Referral: Senate Finance

☐ 13.5.2 Applies to Senate or House Instruments.

If an annual tax or fee change ≥ $500,000, then the bill is dual referred to:

Dual Referral: Revenue and Fiscal Affairs

House

☐ 6.8F Applies to Senate or House Instruments.

If an annual General Fund fiscal cost ≥ $100,000, then the bill is dual referred to:
Dual Referral to Appropriations

☐ 6.8G Applies to Senate Instruments only.

If a net fee decrease occurs or if an increase in annual fees and taxes ≥ $500,000, then the bill is dual referred to:
Dual Referral: Ways and Means